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SUBJECT: MOZAMBIQUE RESPONSE: SOVEREIGN CREDIT RATING FOLLOW-UP

REF: STATE 144531

1. (SBU) Provided below is Post's response to Reftel request for input on Mozambique's Sovereign Credit Rating (SCR).

I. LOCAL SUPPORT FOR SCRs:

a. The Government of Mozambique (GRM) maintains a strong interest in retaining and updating its SCR. The Government, through the Ministry of Planning and Finance, cooperated fully with Fitch Ratings in providing all necessary information for the rating to be assigned (accomplished in July 2003).

b. Enthusiasm for the rating can be described as average. In discussions with Domingos Lambo, Deputy Director, National Directorate of Planning and Budget, Ministry of Planning and Finance (MPF), it is clear the GRM perceives benefits to having an SCR. Most importantly, the rating allows foreign investors to easily obtain macroeconomic data on Mozambique and formulate investment decisions. Additionally, access to consolidated data allows the GRM to assess its own economic status and plan economic and financial reforms to make further progress.

c. The GRM indicates that it would like to participate in the SCR annual maintenance program. Lambo stated the GRM's budget will support this, but fears Mozambique will not have the capacity to provide annual statistics to keep the rating current. Mozambique has not developed an efficient, comprehensive system for collecting data and suffers from an acute lack of information, especially from areas outside of the capital city of Maputo. Formerly, the Ministry of Planning and Finance used to collect economic and social data but this function moved to The National Institute of Statistics (INE), after its creation.

d. Local private sector businesses are supportive of the SCR rating process because it sends a "macroeconomic message" on Mozambique's economic and financial standing relative to other countries in Sub-Saharan Africa. Additionally, a good rating, such as Mozambique received (B/B+) makes investors more confident of their investment decisions.

II. IMPACT ON GOVERNMENT POLICY

e. An African success story in terms of rapid political and economic achievement since the end of the civil war (1992), the GRM continues to shape policies that will lead toward further growth and development. The GRM has made improving the quantity and quality of its economic indicators an explicit goal. Lambo clearly stated that improving indicators, such as the SCR, is a GRM priority. In the early 90's, Mozambique had no statistical economic data. In 1994, post-civil war, the Ministry of Planning and Finance formulated four economic indicators to help paint a picture of the Mozambican economy. Currently, Mozambique has over 70 indicators/classifications that more accurately represent the economy on several levels. The World Bank and the IMF are working with INE to strengthen the institution's capacity to collect more detailed data across the 128 national districts. Economic and social indicators translate directly into the GRM's number one policy priority, reducing absolute poverty in Mozambique. There is a push to improve economic and social ratings so the current government may prove effectiveness in raising Mozambican quality of life. National elections in Mozambique are scheduled for December 2004. Economic, financial, and social improvements in international ratings provide wins for the current ruling party who will fight to remain in power post-2004.

f. The GRM is cognizant that it is not as competitive regionally as some of its neighbors, such as South Africa and Botswana. However, Mozambique is competitive with nations such as Malawi and Zambia and seeks to improve international credit ratings, such as the SCR, to gain this edge.

III. DEVELOPMENT IMPACT

g. It is unclear if the SCR has been a factor in attracting FDI to specific investment projects in Mozambique. Large projects such as the MOZAL Aluminum Smelter and the SASOL natural gas pipeline choose to operate in Mozambique because of the large-scale availability of natural resources and the provision of "export processing zones" as granted by the GRM.

IV. UNDP/S&P PROGRAM

i. The GRM believes that having multiple ratings is beneficial to attracting further investment. It is the policy of the Minister of Planning and Finance (also acting Prime Minister), Luisa Diogo, to take measures that will "sell the image of Mozambique" to outsiders. Positive

ratings will allow Mozambique to display its relative advantages to foreign investors.

IV. CURRENCY ZONE RATINGS

K. Mozambique shows interest in currency zone ratings, but believes the most effective way to "sell the region" is through statistics published by SADC.

LA LIME